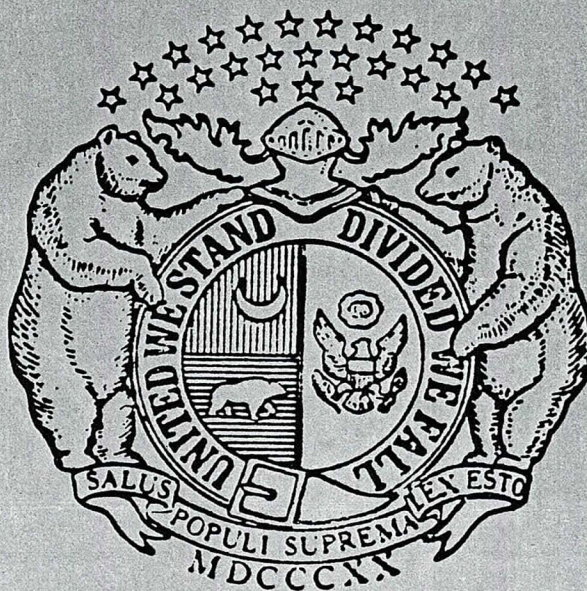


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**Final Report
of the
Joint Committee
on
Access to Higher Education**



January, 1988

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Introduction

The Joint Committee on Access to Higher Education Committee was formed by Senate Concurrent Resolution 11 to investigate four topics during the interim between the first and second regular sessions of the 84th General Assembly. The four topics were:

- 1) The escalating tuition costs at all of Missouri's public and private colleges and universities.
- 2) The low propensity of Missourians to pursue higher education.
- 3) College retention rates.
- 4) The availability of research opportunities and the technical applications of research which encourage business and industry to flourish in Missouri.

The following legislators were members of the Committee:

Sen. Stephen Sharp
Sen. Mike Lybyer
Sen. Dennis Smith
Sen. John Bass
Sen. John Russell
Sen. Roger Wilson, ex officio member

Rep. Mark Abel
Rep. Everett Brown
Rep. Neil Molloy
Rep. Mary Groves Bland
Rep. Laurie Donovan

The Escalating Tuition Costs at all of Missouri's Public and Private Colleges and Universities

Of the four topics--tuition costs, participation rates, retention rates and research--which the Committee was charged with investigating, tuition costs have received the most attention recently. Trends on both the national level and in the state of Missouri have seen the cost of a college education increase faster than the rate of inflation. Such trends are, of course, a major concern to parents hoping one day to send their children to college, for if such trends continue, the cost of a college education will become unaffordable to an increasing number of families. National figures indicate that the current cost of one year of college is roughly \$11,000. That amount is projected to increase to \$20,000 by the year 2000.

By comparison, many Missourians can look forward to costs significantly lower than those reflected in such national averages. For example, the 1987 fall undergraduate unrestricted fees (i.e. tuition) charged by the University of Missouri-Columbia equaled \$1,488 a year. When combined with the cost of books, room and board, and so forth, the typical annual cost of one year of college at UMC runs in the range of \$5,000 to \$6,000, well below the current national average. The story is similar at other state institutions, with annual costs running at the same or even lower levels. On the other hand, private institutions of higher education are typically more expensive, with the annual tuitions running between \$5,000 and \$10,000.

While these figures make it clear that, at least insofar as its state institutions, the cost of a higher education in Missouri is still below the national average, there are legitimate reasons for Missourians to be concerned about the future. As is the case with the rest of the country, the clear recent trend in Missouri is for tuitions to increase at a rate greater than the rate of inflation. Since 1979, for example, tuition at the University of Missouri-Columbia has increased 106%, and this is by no means the largest increase experienced by a state school. The explanation for these increases is that during the late '70's and early '80's, state colleges and universities were able to hold down tuitions by deferring costs on such items as faculty salaries, maintenance and capital improvements, but that in recent years, they have not been able to continue this approach. As a result, these same institutions have been forced to play "catch-up".

At the same time that tuitions have been rising, federal funds for student grants have been decreasing. Indeed, there has been a marked shift in federal funding from outright federal grants to guaranteed student loans, with the result being that over 50% of today's students are financing their higher education by taking on substantial amounts of debt. This trend in itself is a serious concern, since it may have a profound effect upon the types of degree programs students enter. However, this trend may be overshadowed by an even greater concern, that being the potential for deep reductions in the federal

guaranteed student loan program itself in the wake of federal budget trimming.

Finally, there is another explanation for rising tuition costs in Missouri, that being the reduction in the state's support for higher education. In terms of constant dollars, the state's contribution to higher education has been declining in recent years.

The end result of these three trends--rising tuitions, reduced federal aid and reduced state funding--has meant that the cost of higher education in Missouri has been borne increasingly not by the federal government, not by the state, but rather, by parents, students and faculty members. And, it is because the weight of this burden has continued to increase that so much public interest has been generated by the topic of the financing of higher education. The following are some of the suggestions received by the Joint Committee on Access to Higher Education as ways of addressing the topic of escalating tuition costs:

Increase Overall State Funding of Public Institutions

As was mentioned briefly above, the state's support for higher education, in real terms, has been decreasing. For example, in 1979, the percentage of general revenue allocated to higher education was roughly 18%. In 1987, that percentage had dropped to 14%. Currently, lower than expected increases in general revenue, coupled with unexpected additional costs, such as the funding of desegregation programs, have also had an impact. Finally, in many recent years, significant amounts of money appropriated by the General Assembly for higher education have been withheld.

Many witnesses before the Committee felt that more than any other factor, it is this downward direction in real state funding for higher education which must be addressed if we are going to be able to assure Missourians that the cost of their children's higher education will be affordable in the future, and that such an education will be of high quality.

Broadly speaking, this can be done in two ways. The first is to allocate a larger share of the state's budget to higher education. Currently, higher education accounts for only 8.4% of the state's total appropriations. When weighed against the potential economic and social benefits to be derived from a system of colleges and universities funded at levels more in line with national averages, this percentage seems modest indeed. For example, it has been estimated that if the percentage of Missourians having completed four years of college could be increased to meet the national average, these individuals would be earning an additional \$570 million a year in income.

However, as the legislators on the Committee are well aware, increasing higher education's share of the budget will not be easy, since to do so would mean reducing the relative proportion of the state's budget spent on other programs, either by holding constant or decreasing the funds allocated to them while at the same time increasing the amount allocated for higher education. These other programs touch such important

areas as elementary and secondary education, highways, assistance for the needy and the mentally ill, and the state's criminal justice system.

The alternative to reducing other programs in order to more adequately fund higher education is to provide a new source of revenue for higher education which does not now exist. However, due to the provisions of Sections 16 through 24 of Article X of the state's Constitution, which limit the amount by which the state's budget is allowed to grow, Missouri's voters will ultimately have to endorse such an approach through a Constitutional Amendment.

Funding the Missouri Student Grant Program

In the 1970's a student aid program was set up to assist Missourians with a portion of the cost of higher education. The funds for this program are of course an element of the state's overall share of money allocated for higher education. In fiscal year 1987, the state provided 8,122 students some \$9 million worth of aid through this program.

While this is a considerable sum, testimony received by the Committee indicates that this \$9 million represents only a fraction of the amount needed to fully fund this program. Because students must apply for aid under this program, we have the data on how many individuals applied for aid but were turned away. Thus, while 8,122 students were assisted by this program, another 21,423 applied for and were eligible to receive this aid, but were denied because the program's funds were inadequate. For 1989, to assist these students will cost an additional \$17 million dollars. And, testimony indicated that even more students would apply were it not for the fact that applications for the grants must be made by April 30, a date when many high school students, particularly those who will eventually attend community colleges, have not even decided to attend college in the first place.

Some have advocated a restructuring of this program to benefit more students attending state institutions. Under its current statutory framework, the program gives priority in assistance to those students with the greatest financial need. This need in turn is determined in part by the cost of the school the student is attending. The result is that students attending private schools with higher tuitions have a higher "need" than those attending state schools, and therefore receive more aid.

While this may seem to be a misallocation of state funds which must be changed, the better approach seems to be to fund fully the program. It must be recognized that the state's private institutions provide an essential element of diversity to the state's overall educational delivery system, one which is otherwise not supported by any state funding. Under the current statutory eligibility standards, fully funding the program will maintain the aid to these private school students while at the same time apportioning the lion's share of the additional funding (\$10 million) to some 20,000 students attending state-supported schools. While not addressing the larger, long-term issue of adequately funding higher education, this approach does provide a means of using

a program currently on the books to target assistance to qualified students in order to increase the affordability of their higher education. In the event such additional funding is not forthcoming, however, serious consideration should be given to re-defining the eligibility criteria of the program.

Establish Tuition Prepayment or Savings Plans

Few topics have attracted as much interest in state legislatures as the prepaid tuition plans and the college savings plans which have been adopted in a handful of states and which are currently being debated in most of the others. And their appeal is simple, in that they offer to anxious parents peace of mind by providing novel and comparatively painless ways of financing their children's higher education. While clearly not panaceas for the general ills stemming from inadequate funding for higher education, they do deserve careful consideration because of the peace of mind they provide and because they help reverse the trend of students bearing an increasingly larger share of the burden for their education.

The Michigan Plan.

Michigan was the forerunner in the area of providing an alternative method for families to finance their children's education with the passage last year of what has come to be known as their MET plan, or Michigan Educational Trust. Simply stated, the plan accepts from parents, grandparents or others the prepayment of stated amounts into a trust for the benefit of a particular child in return for a guarantee by the state that these payments will cover the tuition costs necessary for the beneficiary to obtain a baccalaureate degree. While there are certainly many other methods by which families could set aside money in the present to pay for future education expenses, only programs like the MET plan and plans offered by a few private institutions assure families that the amount of money they have put away will be adequate to meet the future tuition amount. Administrators of the MET plan indicate that research shows it is this "guarantee" aspect of the plan which is the feature potential participants find most attractive.

The principal concern to a state and its colleges of such a plan is whether the prepayments invested by the trust will produce enough investment income to adequately meet the unknown cost of tuition at a date perhaps twenty years in the future. If it does not, how shall the shortfall be dealt with? Proponents in Michigan were able to convince the legislature that the state's historic investment earnings on other funds indicated that earnings on the MET should be more than adequate to cover the even substantial increases in the cost of tuition, and indeed, that knowledge by colleges and universities that specified amount for tuitions had already been agreed upon would help to keep tuition costs down.

Currently, the Michigan plan is awaiting a ruling by the IRS as to the tax status of funds

invested in the program. While proponents hope that such funds and interest will be characterized as prepayments of a service to be rendered in the future, and therefore not subject to federal tax, it appears that the plan will prove attractive to Michigan residents even without such tax-exempt status. Accordingly, the Board of Trustees for the plan is apparently prepared to request the legislature remove the requirement that such a revenue ruling be obtained prior to the issuance of contracts under the plan.

Illinois-Style Savings Bond Plan.

Illinois has taken a different approach to providing a novel means for families to finance the higher education of their children. Illinois is a regular issuer of millions of dollars worth of general obligation bonds. Normally, these bonds are purchased en masse by large institutional investors at their face value. The state then pays those investors interest on that face amount at regular intervals and in addition repays the face amount of the bonds on the date of maturity specified on the bond.

Illinois has provided a mechanism by which a portion of these bonds can be sold to individuals as "zero-coupon" bonds. This means that, instead of purchasing a \$5,000 bond for \$5,000, and then receiving regular interest and, ultimately, that \$5,000 back, the investor purchases the bond at a large discount, say, \$1,000 for a \$5,000 bond. Interest on that amount is retained, rather than being paid out. This interest is allowed to accumulate and compound, such that at the date of maturity, the state is able to pay the purchaser the full face value of \$5,000. Under, the Illinois program, a marketing system will be set up so that individual investors will be given preference over institutional investors. These individuals will be able to buy one or more bonds at a time. Because the bonds will be normal general obligation bonds destined to fund state programs, they will be exempt from federal tax, and will be exempt from state tax as well. Sale of such bonds is expected in Illinois later this year.

It should be noted that a pre-paid tuition program and a zero-coupon bond program are not necessarily mutually exclusive. Both could co-exist quite easily as components an overall state program designed to meet the education financing needs of different segments of the population. Arguably, the pre-paid approach would be most attractive to middle income households, while the zero-coupon bonds would appeal more to upper-middle income households.

Tuition Waivers

As the above indicates, another type of program would be necessary to meet the needs of lower income families. One suggestion is a fee waiver program, under which the state would capitalize on the fact that many of its colleges and universities have a certain amount of "excess capacity," in that they were designed to accommodate more students than they currently enroll. Such excess capacity could be filled by lower-income students without much of an impact on the institutions. One way to get low-income students to take advantage of this excess capacity would be simply to waive the fees for

them. One suggestion is to use the same type of analysis used to determine Pell grant eligibility to determine who could participate in such a program.

Assistance for the Non-Traditional Student

One aspect of the changing educational environment repeatedly emphasized to the Interim Committee was the emerging importance of addressing the needs of the non-traditional student. It has become apparent that in the future, Missourians will, to an increasing degree, need to return to college after they have initially entered the work force, for additional or advanced training. Often, these students will have families. The financial burdens of college attendance for them can be significant, yet current financial aid programs fail to recognize them. For this reason, changes have been suggested, such as allocating a portion of the grant program's funds specifically for these students. Some method of assistance is clearly justified, as this segment of the population will play an important role in maintaining Missouri's future economic health and growth.

Increase Use of Work-Study Programs

Yet another method of assisting those students having difficulty affording higher education at today's prices might be to increase the use of work study programs. Currently, all state colleges and universities have some funds set aside to employ students at part-time jobs on campus. Such programs provide the schools with a pool of inexpensive labor while at the same time providing students with conveniently located jobs. Some such programs attempt to provide students with on-campus jobs closely related to their majors, while others coordinate employment with local businesses off-campus. To date, the major problems with such programs have been their inability to retain quality workers due to an inability to pay wages competitive with off-campus employment, and the inability of many departments to hire as many part-time student employees as there is work for them, due to limited budgets for such purposes. Increased funding of work study programs would be another method of targeting any increased funding for higher education so as to best serve students having difficulty making ends meet.

Avoid Unintended Consequences of Financial Aid

The Committee heard some disturbing testimony concerning individuals receiving public assistance who had decided to go back to school. The Committee was very impressed by the stories of those who had decided to go back to school so that they could eventually earn their way without the need for public assistance. Because such individuals have no chance of going back to college without federal or state educational grants, the committee feels it is important that such individuals be able to receive such grants and still be eligible for federal and state non-education assistance. While for the most part, such programs are in fact set up to ignore education assistance, in some situations,

recipients find that too much education aid can lead to a termination of their non-education aid. The committee therefore strongly recommends that where possible, state programs be structured in such a way as to avoid these unintended consequences. One possible approach might be to provide any state assistance by means of in-kind services, rather than through money payments.

The Low Propensity of Missourians to Pursue Higher Education

While roughly a third of Missouri's young people go on to college, the percentage is much smaller for identifiable subsets of the population. For example, college attendance by blacks from urban areas and by whites from some rural areas is far below average. There is a need to improve these percentages. All aspects of the state's economy, from traditional areas like manufacturing and agriculture to high technology and the service sector, are increasing in their complexity and require more highly educated workers. Yet at the same time the need for educated workers is increasing, the size of the pool of workers is decreasing. Demographic data indicate a shrinking population of young people. Because the total number of young people is declining, a larger percentage of them will have to be encouraged to attend college if we are to continue to have the type of economy we have today.

Allow State Reimbursement for Out-of-District Community College Expenses

Many times, individuals from groups which have been historically under-represented in college populations find that the best way to enter the collegiate environment is through the state's community colleges. Because these schools are smaller, more conveniently located, less expensive and because they offer more job-oriented vocational programs, they are a good choice for those seeking an education leading to more marketable jobs skills.

While community colleges do a good job in this regard, they would like to do more, but in one area, state law prevents them. Community colleges are supported in part by taxes paid by their local communities and in part by state funds. According to statute, the state will not reimburse such colleges for educational expenses provided outside their designated districts. Many community colleges would like to incur such expenses with out-of-district satellite centers. Particularly in rural areas where the tax base is too small to support new community college districts and where distances and inadequate roads make commuting to existing junior colleges financially impossible, such satellite programs would fill the well established need of greater geographic access. Were it not for the prohibition on out-of-district reimbursement, this need could be met in many areas. In light of the particular importance of community colleges in easing students into the higher education system, and in providing adult basic education, job retraining,

and other programs to ease the transition of people in a changing economy, such an approach seems well worth the expense.

Encourage Geographic "Outreach" Programs Through Established Institutions

In many cases, young people do not attend college for reasons unrelated to geographic or financial access. The Committee was alerted to the existence for two such groups.

The first group comprises both young people and adults who, for a number of reasons, think that college is simply not for them. In some cases, this is because no member of their family has ever attended college and they simply don't know anything about it. Perhaps family members even discourage the notion of going to college. Others might have misconceptions about what college is today, with visions of ivory towers within which they don't feel they belong, unaware of existence of modestly sized, vocationally oriented community colleges.

The second group includes those individuals who, because of choices they made in junior high and high school, are academically unprepared for the type of college education which would be most beneficial to them. Many times, students mature slowly and do not realize early that they have significant academic potential. Failing to recognize this, they take secondary education courses which do not adequately prepare them for college.

Some colleges are starting to communicate with these groups through outreach programs they have established on their own initiative. For example, in St. Louis, Harris Stowe State College has a program to bring inner city students into its walls during the summer months to participate in specialized programs. The University of Missouri at St. Louis has instituted what it calls its Bridge Program, which has a number of facets, each designed to better acquaint local high school students with the college environment. Rural colleges and universities are beginning to communicate to rural students on the benefits of higher education to them. And, a greater realization is developing as to what skills a student needs to be successful in college, such as those listed in the so-called "green" book published by the College Board. The Committee feels that such outreach programs should be encouraged wherever possible.

Provide More Information of Financing Higher Education

The complexity of the choices the average student faces regarding college are daunting. It is important that we assure that this complexity does not dissuade otherwise capable individuals from furthering their education. More must be done to explain to parents and students the types of choices they need to make to move on to higher education. Guidance counsellors are currently overworked and cannot be expected to handle the entire burden.

College Retention Rates

While it is true that roughly a third of all high school seniors go on to college, roughly half of these fail to graduate. This is a serious concern, both in the loss of potential to the state as a whole and the loss to the institutions of these student. Two programs addressing this situation where reported to the Committee:

Establish An Early Warning System

Southeast Missouri State University has set up an early warning system to identify students who are likely to have difficulty in college. They have determined that an incoming student's academic record in high school and his or her standardized test scores are highly correlated with college performance. By being able to recognize "high risk" students even before they begin taking classes, SEMO is better able to provide the type of remedial education or counselling necessary to enable these students to increase their chances of graduating.

Establish Programs to Recruit and Retain Minority Students

The low levels of attendance by minorities at Missouri colleges and universities indicate more must be done to recruit and retain minority students. The state has a moral obligation to operate a higher education system which serves the needs of all of its citizens. By failing year after year to foster campus environments which significant portions of the population of the state find attractive, we are failing to provide a service to those populations which they are entitled to expect.

The Availability of Research Opportunities and the Technical Applications of Research Which Encourage Business and Industry to Flourish in Missouri

It is axiomatic that a state's economic prosperity is closely related to its sytem of higher education. As Missouri's economy follows the national trend toward high technology industry and service sector employment, we must ensure that our system of higher education allows us to keep pace with developments in these areas. With a system of higher education already strapped for funds, it is not immediately clear how this can be done. Several suggestions where offered to the Committee:

Fund Non-Traditional Advanced-Degree Programs

In the area of high technology industry, one factor frequently used to determine where to build new facilities is the availability to company employees of continuing education and advanced degree education in their areas of specialization. As knowledge explodes in areas like telecommunications, computer science and genetic engineering, businesses need to remain well informed to remain competitive.

The University of Missouri-Kansas City is exploring one way to deal with this need. By using a telecommunications system which links the four campuses of the University of Missouri system, UMKC is establishing a program to transmit educational programs to local business premises. In this way, employees at these business can keep abreast of current research in their fields without the inconvenience associated with commuting to campus. The system contemplated would even offer two-way capability so that students and teachers could interact.

Modify the "Bright Flight" Program

Last year, the legislature enacted its "bright flight" program, through which financial incentives are offered to Missouri's top high school students to encourage them to remain in Missouri. Many of these students will be the researchers of tomorrow. A minor modification to this program is necessary due to the recent changes in the federal tax law. Currently, the program requires forty hours of service by students to the college. Due to the new tax law, this service will render the \$2,000 provided to these students under the program taxable income, substantially reducing the incentive. Thus, consideration should be given to removing this requirement.

Another modification to the bright flight program would be to expand it to cover graduate students. Currently, those Missouri students in the top percentage of their graduating classes who plan on graduate study are valuable to schools in other states, which compete for them through various financial incentives. In order to encourage these students to remain in Missouri, the bright flight program could be expanded. Because experience suggests that students tend to remain in the states where they do their graduate work, such a plan would ultimately benefit the state as a whole.